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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday 22 March 1978

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**NATIONAL SECURITY INFORMATION**

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National Intelligence Daily Cable for Wednesday, 22 March 1978

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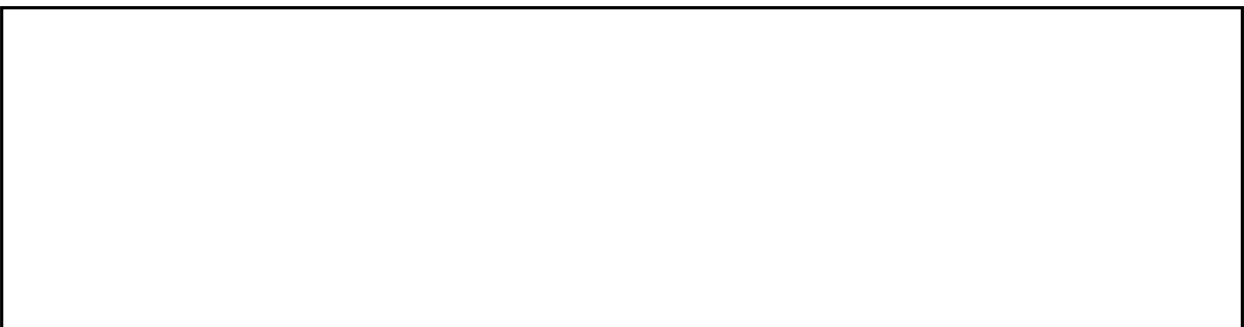
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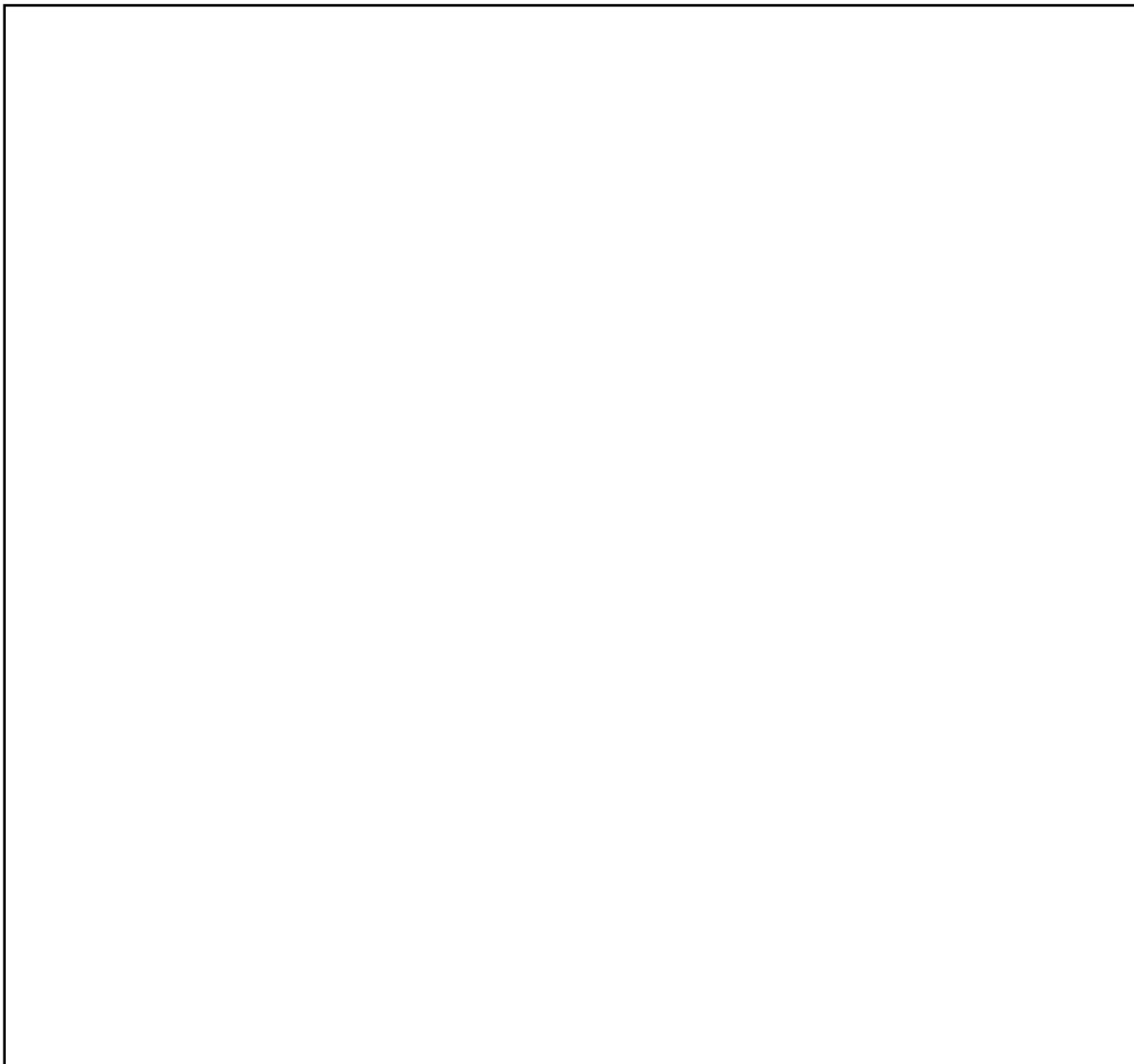
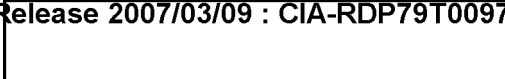


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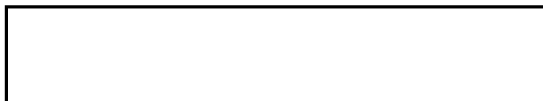
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ISRAEL-US: View of UN Involvement

 *The Israeli press continues to side with Prime Minister Begin on Lebanon and to criticize the US roundly for trying to present Israel with a fait accompli in the UN before*



*Begin's arrival in Washington. The US Embassy, however, believes that Begin has little room for maneuver on this issue at home before Israeli forces withdraw and that he must work out credible arrangements to prevent Palestinian guerrillas from returning to southern Lebanon.*

25X1 [ ] The Israeli media says the US moved rapidly in the UN in order:

- To prevent the Lebanese crisis from sidetracking the Begin-Carter talks.
- To display US resolve against Israel's use of territorial gains in Lebanon as a bargaining chip in peace negotiations.
- To dissociate the US--in Arab eyes--from the Israeli intervention.
- To place Begin on the defensive and preempt moves by Israel's supporters in Congress to rally behind Israel.

25X1 [ ] The press also reflects the Israeli public's usually jaundiced view of UN involvement. Israeli commentators doubt that a UN peacekeeping force can succeed, and argue that additional arrangements will have to be worked out with the US, Lebanon, and Syria to ensure that the Palestinians remain north of the Litani River. The Israelis would apparently like to see the UN force stationed along the river, where it could control access to the bridges to the south, and to have the rest of the area placed in the hands of some combination of Lebanese Army units and Lebanese Christian forces.

25X1 [ ] Leaders of the opposition Labor Party have joined the chorus of attacks on the UN resolution and have expressed "amazement" that Begin has shown some receptivity to it. Labor leader Peres has urged his party to refrain from attacking Begin for the time being, but a few Israeli newspapers of both the left and right are beginning to criticize the Prime Minister for failing to develop a political strategy to cope with the international reaction to the military operation.

25X1 [ ] The US Embassy believes Begin is caught in a bind of his own making. If he agrees to a withdrawal without getting an agreement that gives teeth to a UN peacekeeping force, he

will be widely criticized for squandering the political fruits of a military success. If he holds out for ironclad security guarantees and precipitates a confrontation with the US, he will eventually become vulnerable to charges of further eroding US support for Israel. [REDACTED]

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#### NIGERIA: Army Plotters Arrested

*(S NF NC OC) //Nigerian officials have arrested several noncommissioned and middle-grade officers this month for alleged involvement in separate coup plots. [REDACTED]*

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[REDACTED] //According to the US defense attache in Lagos, several middle-grade officers--possibly in the capital area--were also arrested last weekend. The regime is especially wary of potential opposition from officers at this level who may not be as committed as their superiors to restoring civilian rule in October 1979.//

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[REDACTED] Rumors of disgruntlement are fairly common in Nigeria's oversized and underemployed army, but these are the first reported arrests in several months. [REDACTED]

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#### EASTERN EUROPE: Hard Currency Debt

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[REDACTED] Eastern Europe's net hard-currency debt continued to grow rapidly in 1977, reaching \$32 billion by the end of the year despite efforts to curb imports. The combined debt of the East European countries is likely to rise to about \$37 billion by the end of this year.

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[ ] Eastern Europe has been partially successful in reducing its overall trade deficit, which reached a record level in 1975, thanks to an increase in exports in 1976 and a decline in import growth in 1977. Over this two-year period, the East Europeans cut their annual deficit by roughly \$840 million, to \$5.9 billion. Most of the drop occurred in 1977 when East Germany and Poland slashed imports of industrial goods. Hungary and Romania, however, incurred greater deficits than in 1976 because their imports rose substantially. The Romanians, moreover, failed to increase their exports, largely because their agricultural production declined.

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[ ] By the end of 1977, Eastern Europe's net hard-currency debt had climbed to \$32 billion, and debt service continued to rise rapidly. From January to September 1977, the East Europeans reduced their private borrowing from Western commercial banks by about \$500 million compared with the same period in 1976. Indebtedness to private banks remained at about half of total East European debt.

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[ ] Eastern Europe will find it difficult to keep imports down in 1978, even though there is likely to be little or no increase in purchases of Western machinery and equipment. Some countries will be forced to boost imports of industrial materials because past cuts in purchases have drawn down their inventories. Two major grain importers--Poland and East Germany--will probably import more grain in 1978 to offset shortfalls in last year's harvests.

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[ ] Continued sluggishness in Western demand and protectionist measures in the West suggest that Eastern Europe will find it difficult to achieve faster export growth this year than the 8 percent achieved last year. If the Soviets demand a better balance in their trade with Eastern Europe, this will aggravate Eastern Europe's problems in exporting to the West. Last year, the USSR allowed most East European countries to increase their deficits sharply, which in turn freed goods for export to the West.

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[ ] Eastern Europe may be able to cut its trade deficit this year by \$1 billion, to about \$5 billion. Debt would then rise to roughly \$37 billion.

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[ ] Despite the escalation of debt, East European countries are still able to get loans with little difficulty from the highly liquid Western money markets. [ ]

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[redacted]  
[redacted] Poland  
may have the most trouble obtaining new private loans but will  
be helped by the availability of government and government-  
backed credits from most major Western suppliers--including  
\$800 million for agricultural products alone. [redacted]

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#### POLAND: Raising Consumer Prices

[redacted] Poland has increased prices of gasoline and other oil products by an average of 20 percent. This is the first significant consumer price hike since the abortive attempt to raise meat prices in June 1976. Prices for consumer goods have risen indirectly, however, through repackaging and the introduction of special shops that have in effect created a two-tier meat pricing system in the socialized sector. The regime finds such maneuvers useful because they help desensitize the consumer to further price increases that must follow.

[redacted] The regime is billing the 20-percent increase as a conservation measure to reduce the burden on the economy of increased oil imports, particularly those from hard-currency countries. Poland asserts that Arab oil now accounts for more than 21 percent of its oil imports, as compared to less than 5 percent in 1973.

[redacted] The higher gasoline prices will largely affect drivers of automobiles--a relatively small group that can afford the increase--and will probably not lead to large-scale consumer unrest. The increase may have little impact on consumption, but it will sop up some excess income. The last increase in gasoline prices was a 75-percent boost in 1974.

[redacted] The regime has been reluctant to raise prices for basic consumer goods directly during the last two years, but it has introduced increases gradually and indirectly. In 1976, for example, sugar rationing began, and the consumer was able to buy a monthly ration at the fixed price but had to pay sharply higher prices for additional quantities. Some goods have also been repackaged in smaller quantities but sold at the same price.

[redacted] The regime has also opened special "commercial" shops that feature a better selection of higher quality meat at nearly double the "frozen" prices in what are now known as "regular"

shops. The new shops are popular, especially in urban areas, and should help to soak up excess consumer purchasing power.

[REDACTED]

#### PERU: Election Atmosphere

[REDACTED] Peru moved a step closer to constitutional government last week when an independent national election commission registered 12 broadly representative political parties for the 4 June constituent assembly election. The election, Peru's first since 1963, promises to be genuinely democratic, although one major party--the Popular Action led by former President Fernando Belaunde Terry--has withdrawn.

[REDACTED] The enrollment of every significant party that applied, including the Peruvian Communist Party and four other antigovernment leftist groups, appeared to remove most doubts about the military government's desire for an impartial election. The issuance last week of a general political amnesty that will allow some 20 political exiles to return to the country further improved the election atmosphere.

[REDACTED] President Morales Bermudez also seems to have assuaged fears generated among the political parties by his assertion last December that the constituent assembly must either incorporate in the new constitution the reforms enacted by the military or be dissolved. The parties were equally upset when he commented that the promised political transition in 1980 would constitute "a transfer of government but not of power."

[REDACTED] Late last month, the President reaffirmed the government's intention of restoring civilian rule at the appointed time and clarified his earlier remarks by saying that the military could not legitimately transfer power because it had never received a popular mandate.

[REDACTED] The one negative note in the election process is that Popular Action, the country's second largest party, has reversed its earlier decision to take part. Party leader Belaunde, whom the military deposed from the presidency in 1968, withdrew the party's registration when the government ignored his demand that the constituent assembly be transformed immediately into a provisional constitutional government.

[REDACTED]

25X1 [ ] It is likely that Belaunde insisted on this unacceptable condition to provide an out for his party, which has been badly split over endorsing the government's phased return to civilian rule. The former President probably was also concerned that Popular Action might make a poor showing in the election.

25X1 [ ] Belaunde has announced that party members will be free to vote in the election and that the party will recognize any constitution that is eventually approved. Although it is too early to judge the full impact on the democratization process of Popular Action's withdrawal, its absence is bound to detract from the constituent assembly's stature as a deliberative body. [ ]

#### TAIWAN: New President Elected

25X1 [ ] Premier Chiang Ching-kuo was elected President of the Republic of China yesterday by the National Assembly. Chiang replaces Yen Chia-kan, who assumed the office in 1975 on the death of the Premier's father, Chiang Kai-shek. The office will now revert to the powerful institution it was under the elder Chiang.

25X1 [ ] Chiang's running mate, vice presidential candidate Hsieh Tung-min, will be elected today. Hsieh will be the first Taiwanese to hold such a high position in the Nationalist government.

25X1 [ ] Although unopposed, Chiang did not receive all of the possible votes; a few were invalidated, probably as an expression of dissatisfaction with Chiang's rule. Some conservative Nationalist Chinese have criticized Chiang's efforts to bring the Taiwanese majority into greater participation in the island's politics. Nationalist Chinese have also discreetly opposed Hsieh's election as Vice President, fearing that a Taiwanese will assume the presidency when the 67-year-old Chiang dies.

25X1 [ ] Independent Taiwanese politicians, on the other hand, think the process of opening politics to the Taiwanese is too slow. They see Hsieh, a longtime member of the ruling Nationalist party establishment, as a "tame" Taiwanese.

25X1 [ ] Chiang will be inaugurated in mid-May, and several cabinet changes--including a new premier--will then be announced.

These appointments may shed some light on the composition of the leadership in the period after Chiang Ching-kuo. [REDACTED]

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INDONESIA: Suharto's Third Term

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[REDACTED] //Indonesian President Suharto's reelection to a third five-year term today by the National Assembly comes at a time of heightened tension most recently illustrated by an explosion in the National Congress building on Monday. There does not appear to be any immediate threat to Suharto or to the military leaders who have ruled the country since the Communist coup attempt in 1965. Suharto has demonstrated an ability to weather previous periods of serious tension but, if social and economic problems lead to more open and prolonged opposition and disorder, his position could be in jeopardy.//

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[REDACTED] Since last fall, students at the country's major universities have staged disruptive strikes and demonstrations to protest the Army's role in government and Suharto's alleged toleration of corruption, especially by members of his own family.

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[REDACTED] The President's decision in January to arrest demonstrating students and prevent newspapers from reporting their activities reflects his concern that students could threaten public order and marshal public opinion against his regime. The crackdown, however, may have only worked to Suharto's disadvantage. High school students have joined the ranks of student demonstrators and the government has felt obliged to close several educational institutions. Opposition to Suharto may continue to grow in academic circles.

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[REDACTED] //The severity with which the President reacted to student protest may have been one reason Vice President Sultan Hamengku Buwono decided not to stand with Suharto for reelection. The Vice President has very limited political power but he is a respected civilian whose status gave a democratic appearance to the authoritarian government.//

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[REDACTED] //His departure from the ticket not only embarrassed Suharto but caused disagreement among high-level military officers over the President's choice to replace the Sultan--former Foreign Minister and now Parliament Chairman Adam Malik. Although

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Malik is a well-known civilian who will lend balance to the ticket, his history of disagreeing with government policy--sometimes in public--doubtless concerns some generals.//

25X1 [ ] The President's insistence on obtaining recognition of mysticism as an official religion has alienated many orthodox Muslims. Although Suharto--himself a firm adherent to Javanese mystical beliefs--may have shored up support among Indonesians also steeped in this religion, the Muslim-dominated opposition party's parliamentary protest has caused him embarrassment. The opposition's break with the traditional display of assembly unity by voting against government policies and staging a walk-out may also give rise to future anti-Suharto parliamentary tactics.

25X1 [ ] //This year, the government has had to import 2.5 million tons of rice--one-quarter of total world rice imports--in large part because of drought and disease. The country's foreign exchange earnings from oil are now adequate to cover import needs, but a continued lagging trend in food production could weaken Suharto's position.// [ ]

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#### JAPAN-EC: Trade Negotiations

25X1 [ ] //The European Community has failed to win any significant trade concessions from Japan after six weeks of bilateral discussions capped by EC Commission Vice President Haferkamp's visit to Tokyo this week. The EC is seeking a commitment from Japan to boost imports and restrain exports of key manufactured goods.//

25X1 [ ] //Differences between the two remain so great that a planned joint statement may not be forthcoming when talks end Thursday. The EC Commission is under considerable pressure from Community members to get concessions from Japan. Rather than try to defend in Europe a communique that in fact marks little progress, the Commission may prefer no agreement at all at this time.//

25X1 [ ] Tokyo has refused to go much beyond what is set out in the US-Japanese communique on trade announced last January, under which Japan agrees to reduce tariffs and quotas and to step up economic growth. The Japanese have agreed only to lower tariffs on EC cookies, chocolates, and chewing gum and to continue a special quota on luncheon meat imports.

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[ ] //EC officials question Japan's commitment to higher GNP growth and a smaller current account surplus this year and have been pressing for more specific targets with direct benefits for Europe. High on the EC's list are increased Japanese imports of European manufactured goods, especially aircraft. The Community wants Japan to buy up to 20 A300 Airbuses. The EC is also seeking tariff concessions on a wide range of agricultural and manufactured products. Finally, the Community is demanding a lowering of such Japanese nontariff barriers as quotas and rigid inspection and testing standards.//

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[ ] //Japanese Minister of External Economic Affairs Ushiba claims the EC has little understanding of his country's economy and that a quick solution to the trade surplus problem is not possible. In regard to the EC's Airbus request, he said that Japanese airlines would decide for themselves which aircraft they would buy based on economic considerations.//

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[ ] //Japan's trade surplus with the Nine last year exceeded \$5 billion--about 30 percent of Japan's global surplus. This represents an increase of nearly \$1 billion over the previous year, despite limits on Japanese shipments of steel and textiles to the EC and selective controls on the sale of cars, televisions, and electronic products to various countries. Japanese demand for EC exports--primarily chemicals, machinery, and food products--remains sluggish because of the slow pace of Japan's economic recovery. [ ]

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